

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

AUDITED FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2008 AND 2007

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**WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE**

Board of Commissioners and Management Officials

Years Ended June 30, 2008 and 2007

Board of Commissioners

Chairman Donald Chambers
Vice Chairman Charles Albert Bell
Board Member Gary Vandever
Board Member David E. Swindell
Board Member Hale Moss

Management Officials

Executive Director Chris Leauber
Treasurer Betty Gibbs



JOBE, HASTINGS & ASSOCIATES

Certified Public Accountants

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Donna K. Hastings, CPA, CSEP

James R. Jobe, CPA

Joel H. Jobe (1944 - 2006)

INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Water and Wastewater Authority of Wilson County, Tennessee
Lebanon, Tennessee

We have audited the accompanying statements of net assets of Water and Wastewater Authority of Wilson County, Tennessee, as of June 30, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Water and Wastewater Authority of Wilson County, Tennessee, as of June 30, 2008 and June 30, 2007, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2008 on our consideration of Water and Wastewater Authority of Wilson County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The management's discussion and analysis on pages 5-7, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water and Wastewater Authority of Wilson County's basic financial statements. The Board of Commissioners and management officials schedule and the supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Jobe, Hastings & Associates
Certified Public Accountants

Murfreesboro, Tennessee
December 22, 2008

Water & Wastewater Authority of Wilson County Management's Discussion and Analysis

This section of the Water & Wastewater Authority of Wilson County's annual financial report presents an analysis of the Authority's financial performance during the fiscal years ended June 30, 2008 and 2007. This information is presented in conjunction with the audited basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2008

- The Authority's net assets increased by \$2,837 thousand or 12 percent from \$23,655 thousand to \$26,492 thousand.
- Operating revenues increased by \$114 thousand or 2.9 percent from \$3,963 thousand to \$4,077 thousand.
- Operating expenses increased by \$156 thousand or 4.4 percent from \$3,518 thousand to \$3,674 thousand.
- Capital contributions to the Authority decreased by \$2,051 thousand or 42.8 percent from \$4,789 thousand to \$2,738 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: management's discussion and analysis, summaries of the Authority's net assets and condensed statement of revenues, expenses and changes in net assets.

REQUIRED FINANCIAL STATEMENTS

The financial statements of the Authority report information utilizing the full accrual basis of accounting. The financial statements conform to accounting principles which are generally accepted in the United States of America. The statements of net assets include information on the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources and the obligations to the Authority's creditors. The statements of revenues, expenses and changes in net assets identify the Authority's revenues, and expenses for the fiscal years ended June 30, 2008 and 2007. These statements provide information on the Authority's operation over the past two fiscal years.

FINANCIAL ANALYSIS OF THE DISTRICT

The statement of net assets and the statement of revenues, expenses, and changes in net assets provide an indication of the Authority's financial condition and also indicate that the financial condition of the Authority improved during the last fiscal year. The Authority's net assets reflect the difference between assets and liabilities. An increase in net assets over time typically indicates an improvement in financial condition.

NET ASSETS

A summary of the Authority's statement of net assets is presented below.

Table 1
Condensed Statement of Net Assets
(in thousands of dollars)

	2008	2007	Dollar Change	Percent Change	2006	Dollar Change	Percent Change
Current and Other Assets	2,207	2,233	(26)	(1.2)%	2,414	(181)	(7.5)%
Restricted Assets	5,344	5,371	(27)	(0.5)%	1,937	3,434	177.3%
Capital Assets, net	32,980	30,095	2,885	9.6%	26,217	3,878	14.8%
Total Assets	40,531	37,699	2,832	7.5%	30,568	7,131	23.3%
Long-Term Debt	12,295	12,462	(167)	(1.3)%	9,917	2,545	25.7%
Current Liabilities	1,744	1,582	162	10.2%	1,607	(25)	(1.6)%
Total Liabilities	14,039	14,044	(5)	(0.04)%	11,524	2,520	21.9%
Net Assets Invested in Capital Assets, Net of Related Debt	22,760	20,406	2,354	11.5%	16,059	4,347	27.1%
Net Assets Restricted for Debt Service	2,736	2,158	578	26.8%	1,739	419	24.1%
Unrestricted Net Assets	996	1,091	(95)	(8.7)%	1,246	(155)	(12.4)%
Total Net Assets	26,492	23,655	2,837	12.0%	19,044	4,611	24.2%

As the above table indicates, total assets increased by \$2,832 thousand from \$37,699 thousand to \$40,531 thousand during the fiscal year ended June 30, 2008. This is a combination of a decrease of \$26 thousand in current and other assets, an increase of \$2,885 thousand in capital assets and a \$27 thousand decrease in restricted assets.

Total liabilities reflect a decrease of \$5 thousand. This includes a decrease of \$167 thousand in long-term debt and an increase of \$162 thousand in other liabilities.

Table 1 also indicates that total net assets increased by \$2,837 thousand from \$23,655 thousand to \$26,492 thousand. This increase is due to \$2,738 thousand in capital contributions received in fiscal year 2008 from developers, which is 42.8% less than the \$4,789 thousand contributed from developers in fiscal year 2007. This decrease can be attributed to the weakened economic climate experienced during the last year. In addition, net assets invested in capital assets, net of related debt, increased \$2,354 thousand with an increase in net assets restricted for debt service of \$578 thousand and a decrease in unrestricted net assets of \$95 thousand.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(in thousands of dollars)

	2008	2007	Dollar Change	Percent Change	2006	Dollar Change	Percent Change
Operating Revenue	4,077	3,963	114	2.9%	3,422	541	15.8%
Nonoperating Revenue	284	1,211	(927)	(76.5)%	410	801	195.4%
Total Revenue	4,361	5,174	(813)	(15.7)%	3,832	1,342	35.0%
Depreciation Expense	1,021	923	98	10.6%	829	94	11.3%
Other Operating Expenses	2,653	2,595	58	2.2%	2,059	536	26.0%
Nonoperating Expenses	588	1,834	(1,246)	(67.9)%	1,022	812	79.5%
Total Expenses	4,262	5,352	(1,090)	(20.4)%	3,910	1,442	36.9%
Income Before Capital Contributions	99	(178)	277	175.8%	(78)	(100)	128.2%
Capital Contributions	2,738	4,789	(2,051)	(42.8)%	3,899	890	22.8%
Changes in Net Assets	2,837	4,611	(1,774)	(38.5)%	3,821	790	20.7%
Beginning Net Assets	23,655	19,044	4,611	24.2%	15,223	3,821	25.1%
Ending Net Assets	26,492	23,655	2,837	12.0%	19,044	4,611	24.2%

The Statement of Revenues, Expenses and Change in Net Assets identifies the various revenue and expense items which affect the change in net assets. As the information in Table 2 indicates, Income Before Capital Contributions of \$99 thousand and capital contributions of \$2,738 thousand were the items which result in an increase of \$2,837 thousand in net assets.

Table 2 indicates that the Authority's total revenue decreased by \$813 thousand or 15.7 percent to \$4,361 thousand from \$5,174 thousand the prior year. Despite an increase of 2.9 percent in operating revenue, the overall decrease in total revenue was due to a 76.5 percent decrease in nonoperating revenue of \$927 thousand. This decrease is primarily due to a decrease in waterline relocation reimbursements. Total expenses decreased by \$1,090 thousand or 20.4 percent during the fiscal year of 2007/2008 primarily due to a decrease in waterline relocation expenses.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Statements of Net Assets

June 30, 2008 and 2007

	<u>ASSETS</u>	
	<u>2008</u>	<u>2007</u>
Utility Plant and Equipment -		
Land	\$ 569,531.50	\$ 85,959.50
Water distribution system	21,165,656.00	20,587,948.86
Wastewater system	17,777,472.50	15,380,085.00
Building	1,234,248.07	1,226,080.57
Office equipment	200,490.26	198,676.74
Equipment	637,470.88	618,274.88
Construction in progress	401,494.75	34,650.00
	<u>\$ 41,986,363.96</u>	<u>\$ 38,131,675.55</u>
Less accumulated depreciation	<u>(9,005,949.06)</u>	<u>(8,035,816.32)</u>
	<u>\$ 32,980,414.90</u>	<u>\$ 30,095,859.23</u>
Restricted Assets -		
Cash and cash equivalents	\$ 82,069.10	\$ 68,139.08
Investments in interest bearing deposits	5,262,326.53	5,303,128.01
	<u>\$ 5,344,395.63</u>	<u>\$ 5,371,267.09</u>
Current Assets -		
Cash and cash equivalents	\$ 919,677.51	\$ 964,325.64
Investments in interest bearing deposits	6,000.00	4,500.00
Accounts receivable, less allowance for doubtful		
accounts of \$50,000.00 and \$28,000.00 as of June 30,		
2008 and 2007, respectively	480,065.91	457,950.37
Due from Tennessee Department of Transportation	222,989.23	192,027.23
Accrued interest receivable	20,407.29	19,455.26
Inventory of supplies	181,923.16	171,830.27
Prepaid expenses	18,742.73	40,661.16
	<u>\$ 1,849,805.83</u>	<u>\$ 1,850,749.93</u>
Other Assets -		
Deferred bond issue costs, less amortization of \$242,175.08		
and \$217,266.51 as of June 30, 2008 and 2007, respectively	\$ 356,767.98	\$ 381,676.55
TOTAL ASSETS	<u>\$ 40,531,384.34</u>	<u>\$ 37,699,552.80</u>

See notes to financial statements.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Statements of Net Assets (continued)

June 30, 2008 and 2007

	<u>LIABILITIES</u>	
	<u>2008</u>	<u>2007</u>
Long-Term Debt -		
Revenue bonds payable, non-current, net	\$ <u>12,294,688.80</u>	\$ <u>12,462,258.63</u>
Current Liabilities -		
Current portion of long-term debt	\$ 723,279.27	\$ 642,885.19
Accounts payable	156,271.61	153,346.65
Accrued interest payable	152,354.17	164,354.17
Customer deposits	649,616.00	561,051.00
Sales tax payable	26,837.00	28,004.00
Accrued payroll and related items	36,147.25	32,534.23
	\$ <u>1,744,505.30</u>	\$ <u>1,582,175.24</u>
TOTAL LIABILITIES	\$ <u>14,039,194.10</u>	\$ <u>14,044,433.87</u>
 <u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 22,760,405.53	\$ 20,406,442.73
Restricted for:		
Debt service	2,735,850.74	2,157,862.15
Unrestricted	995,933.97	1,090,814.05
TOTAL NET ASSETS	\$ <u>26,492,190.24</u>	\$ <u>23,655,118.93</u>

See notes to financial statements.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Statements of Revenues, Expenses and Changes in Net Assets

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Operating Revenues -		
Water sales	\$ 3,100,489.06	\$ 2,968,840.47
Wastewater income	765,476.54	782,283.80
Other charges	211,265.11	211,597.64
	<u>\$ 4,077,230.71</u>	<u>\$ 3,962,721.91</u>
Less: Bad debt expense	29,842.88	10,916.42
Net Operating Revenue	<u>\$ 4,047,387.83</u>	<u>\$ 3,951,805.49</u>
Operating Expenses -		
Depreciation expense	\$ 1,020,972.47	\$ 922,884.71
Water purchased	738,529.61	697,128.33
Wastewater service costs	470,345.92	319,631.47
Repairs and maintenance expense	209,731.33	236,160.20
Management salaries	200,344.36	173,008.37
Plant salaries	179,717.35	177,336.08
Office salaries	118,199.39	152,447.79
Legal expense	111,910.67	177,130.48
Health insurance expense	85,034.69	94,302.01
Engineering fees	67,364.76	122,867.60
Retirement expense	56,599.40	63,933.12
Office supplies and expense	52,504.93	44,169.08
Plant utilities expense	51,731.13	52,828.12
Payroll tax expense	41,291.63	44,045.44
Miscellaneous expense	37,517.10	24,884.39
Other insurance expense	36,743.95	38,559.25
Postage expense	31,152.92	22,548.39
Audit and accounting	29,500.00	25,400.00
Telephone and office utilities	27,722.07	26,180.84
Legal salary	21,550.32	20,524.08
Data processing	21,504.00	20,623.00
Workers' compensation insurance	13,422.48	23,658.00
Uniforms expense	9,090.87	7,325.05
Seminar expense	4,827.65	2,417.36
Dues expense	3,369.90	4,070.00
Director fees	2,546.40	2,904.73
State fees	680.00	10,100.00
	<u>\$ 3,643,905.30</u>	<u>\$ 3,507,067.89</u>
Operating Income	<u>\$ 403,482.53</u>	<u>\$ 444,737.60</u>
Nonoperating Revenues (Expenses) -		
Waterline relocation reimbursement		\$ 992,469.03
Interest income	\$ 258,459.50	218,556.70
Gain on disposal of fixed assets	25,747.73	
Interest and amortization expense	(588,267.95)	(719,345.63)
Waterline relocation expenses		(1,114,376.67)
	<u>\$ (304,060.72)</u>	<u>\$ (622,696.57)</u>
Income (Loss) Before Contributions	<u>\$ 99,421.81</u>	<u>\$ (177,958.97)</u>

See notes to financial statements.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Statements of Revenues, Expenses and Changes in Net Assets (continued)

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Contributions -		
Capital reimbursement	\$ 30,962.00	
Contributions in aid of construction	<u>2,706,687.50</u>	\$ 4,789,040.00
	\$ 2,737,649.50	\$ 4,789,040.00
 Increase in Net Assets	 \$ 2,837,071.31	 \$ 4,611,081.03
Net Assets, Beginning of Year	<u>23,655,118.93</u>	<u>19,044,037.90</u>
Net Assets, End of Year	<u>\$ 26,492,190.24</u>	<u>\$ 23,655,118.93</u>

See notes to financial statements.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY

Statements of Cash Flows

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows from Operating Activities -		
Cash receipts from customers	\$ 4,094,427.56	\$ 3,955,170.81
Cash payments to suppliers for goods and services	(1,914,657.87)	(1,871,993.50)
Cash payments to or on behalf of employees	(691,078.44)	(732,833.87)
Other operating revenue	19,409.73	20,198.97
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,508,100.98</u>	<u>\$ 1,370,542.41</u>
Cash Flows from Capital and Related Financing Activities -		
Capital contributions	\$ 203,000.00	\$ 315,000.00
Proceeds from TDOT waterline relocation contract		1,182,994.29
Proceeds from bond issue		3,185,000.00
Proceeds from bond issuance premium		181,046.25
Proceeds from disposal of assets	44,685.00	
Costs related to debt issuance		(379,324.95)
Purchase of land	(163,572.00)	
Purchase and construction of utility plant and equipment	(937,205.91)	(327,760.02)
Principal payments on revenue bonds	(642,885.19)	(702,758.49)
Payments of waterline relocation costs		(1,418,708.81)
Interest paid on revenue bonds	(339,649.94)	(456,001.20)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (1,835,628.04)</u>	<u>\$ 1,579,487.07</u>
Cash Flows from Investing Activities -		
Proceeds from maturities of investments securities	\$ 4,530,998.77	\$ 4,134,900.00
Interest income	194,610.18	156,853.23
Purchase of investment securities	(4,428,800.00)	(7,047,954.78)
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	<u>\$ 296,808.95</u>	<u>\$ (2,756,201.55)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ (30,718.11)	\$ 193,827.93
Cash and cash equivalents, beginning of year	1,032,464.72	838,636.79
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 1,001,746.61</u>	<u>\$ 1,032,464.72</u>
Adjustments to reconcile operating income to net cash provided by (used) by operating activities:	<u>2008</u>	<u>2007</u>
Operating income	\$ 403,482.53	\$ 444,737.60
Depreciation	1,020,972.47	922,884.71
Provision for bad debts	22,000.00	
(Increase) in accounts receivable	(44,115.54)	(67,196.71)
(Increase) in inventory	(6,506.94)	(17,356.05)
(Increase) Decrease in prepaid expenses	21,918.43	(19,206.75)
Increase (Decrease) in accounts payable	(660.99)	16,617.83
Increase in customer deposits	88,565.00	90,761.00
Increase (Decrease) in sales tax payable	(1,167.00)	3,486.00
Increase (Decrease) in accrued payroll and related items	3,613.02	(4,185.22)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,508,100.98</u>	<u>\$ 1,370,542.41</u>

See notes to financial statements.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY

Statements of Cash Flows (continued)

Years Ended June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
Balance sheet presentation -		
Restricted cash and cash equivalents	\$ 82,069.10	\$ 68,139.08
Cash and cash equivalents	<u>919,677.51</u>	<u>964,325.64</u>
	<u>\$ 1,001,746.61</u>	<u>\$ 1,032,464.72</u>
 Non-Cash Transactions -		
Noncash capital contributions from developers consisting of water infrastructure	<u>\$ 106,300.00</u>	<u>\$ 44,800.00</u>
Noncash capital contributions from developers consisting of wastewater infrastructure	<u>\$ 2,397,387.50</u>	<u>\$ 4,429,240.00</u>
 Noncash purchases of inventory	<u>\$ 3,585.95</u>	<u>\$ 18,547.63</u>
 Interest capitalized to utility plant and equipment	<u>\$ 164,303.37</u>	
 Land purchase financed with note payable	<u>\$ 320,000.00</u>	

See notes to financial statements.

**WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE**

Notes to Financial Statements

Years Ended June 30, 2008 and 2007

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information – The Water and Wastewater Authority of Wilson County, Tennessee, “the Authority” was established July 21, 1975, as a public and governmental body. The Authority is governed by a Board of Commissioners appointed by the county mayor and approved by the county commissioners and does not have any power to levy or collect a tax. In 1977, the Board of Commissioners changed the name to be the “Water and Wastewater Authority of Wilson County, Tennessee.” The Authority operates a water system and supply for customers in specified areas of Wilson County. During the year ended June 30, 2000, the Authority began providing wastewater treatment for a limited number of customers.

The accounting policies of the Authority conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

Reporting Entity – Because of the lack of significance of its operational and financial relationship with the County, the Authority is not a component unit to be included in the comprehensive annual report of Wilson County, Tennessee.

Basis of Presentation and Accounting – The accrual basis of accounting is used, in conformity with generally accepted governmental accounting principles applicable to water utility districts. Revenues are recognized when they are billed, and expenses are recognized when they are incurred. Unbilled utility service receivables are recorded at year-end. The Authority has adopted GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Government Entities that use Proprietary Fund Accounting.” The Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions; issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

The accounts of the Authority are organized on the basis of a proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the Authority’s assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by laws or regulations that the activity’s costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its cost, including capital costs (such as depreciation or debt service).

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net assets. Net assets (i.e., total assets net of total liabilities) are segregated in invested in capital assets, net of related debt; restricted for debt service; and unrestricted components.

Budget – An annual budget is adopted by the Board of Commissioners as a management control device on a basis consistent with generally accepted accounting principles (GAAP).

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that may affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Utility Plant, Building, Wastewater System, and Equipment – Land, utility plant, building, wastewater system, and equipment are recorded at cost or, if contributed, at the estimated fair value of the contribution. The Authority defines capital assets as assets with an initial, individual cost of more than \$1,000.00 and an estimated useful life in excess of one year. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. When items of property and equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included as non-operating revenue or loss.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation of the utility plant, building, wastewater system, and equipment is computed using the straight-line method as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Cost of system in service	25 - 40 years
Wastewater system	40 years
Building	10 - 40 years
Equipment	3 - 10 years

Restricted Assets – Bond covenants of the various bond issues require the establishment of bond and interest sinking funds to provide for the timely retirement of bond principal and interest. At June 30, 2008 and 2007, these reserves have been adequately funded and have been presented in the financial statements as restricted assets.

Cash and Cash Equivalents – Cash consists principally of checking accounts and certificates of deposits on deposit with financial institutions. For the purpose of the statement of cash flows, the Authority considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Receivables – The Authority uses the reserve method in determining bad debts expenses.

Inventory – The Authority maintains an inventory of materials and supplies for repairs to the utility system. The inventory is carried at the lower of cost or market value using the “first-in, first-out” method.

Capitalized Interest – The Authority capitalizes net interest costs and related interest earned as part of constructing water projects.

Bond Issue Costs – The costs of the issuance of bonds are being amortized on the straight-line-method, over the life of the bonds.

Discounts on Bonds – The discount on bonds issued are being amortized on the straight-line-method, over the life of the bonds.

Deferred Loss on Refinancing of Bonds – The refunding of debt in 1993 and 2006 resulted in a deferred amount, which is being amortized over the remaining life of the old debt in accordance with GASB 23.

Operating Revenues and Expenses – Operating revenues and expenses consist of those revenues that result from the ongoing principal operations of the Authority. Operating revenues consist primarily of charges for water services. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing type of activities. When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the Authority’s policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

Contributions in Aid of Construction – Developers are required by the Authority to install water lines in new developments according to the Authority’s specifications and subject to inspection by the engineer. Developers bear the cost of laying the water lines, which become the property of the Authority. The engineer’s estimate of the cost of these lines is capitalized as utility plant and recorded as contributed capital by the Authority prior to July 1, 2000. After June 30, 2000, the Authority records the cost as revenue.

A fee is charged by the Authority for the physical connection to the water system. Prior to July 1, 2000, the fee was recorded as contributed capital and the cost of the installation of the tap was capitalized as utility plant. Beginning July 1, 2000, tap fees are recorded as revenue.

In accordance with GASB 33, contributions from contractors are recorded as revenue in the statement of earnings rather than as a component of equity effective July 1, 2000.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

Note A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences – Full time employees are given one day of vacation each month during the first six years of continuous employment. Employees with more than six years of continuous employment are granted fifteen days annual vacation with the additional days being granted in the months of March, June, and September. Vacation days earned and not used may be carried forward with the ceiling not to exceed thirty days. The Authority has accrued the amount of vacation time carried forward as of June 30, 2008 and 2007.

Each employee accumulates one day of sick leave each month. Sick leave not used during the year may be carried forward. Upon termination or voluntary resignation, all accrued sick leave is forfeited. Therefore, no amounts have been recorded for accrued sick pay in the financial statements.

Net Assets – Net assets comprise the various net earnings from operating income, non-operating revenues and expenses, and capital contributions. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted – This component of net assets consists of constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Note B - CASH AND CASH EQUIVALENTS

Interest Rate Risk and Concentration of Credit Risk – The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. The Authority places no limit on the amount it may invest in any one issuer.

Credit Risk – The Authority is authorized to make investments in certificates of deposit, bonds, notes or treasury bills of the United States, or any of its other agencies, or obligations guaranteed as to principal and interest by the United States or any of its agencies with a maturity not greater than one year, or in the pooled investment fund established under Tennessee law.

At June 30, 2008 and 2007, the entire bank balance was covered by federal depository insurance or by collateral held in the Tennessee Bank Collateral Pool. The Tennessee Bank Collateral Pool is a multiple financial institution collateral pool to which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. The pool also has the ability to make additional assessments on a pro rata basis to the members of the pool if the value of collateral is inadequate to cover a loss.

The deposits are categorized as follows:

	<u>Carrying Amount</u>		<u>Bank Balance</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Deposits:				
Cash and cash equivalents	\$ 3,526,323.14	\$ 4,097,842.73	\$ 3,396,820.91	\$ 4,129,237.71
Investments in interest bearing deposits	<u>2,743,300.00</u>	<u>2,241,800.00</u>	<u>2,743,300.00</u>	<u>2,241,800.00</u>
	<u>\$ 6,269,623.14</u>	<u>\$ 6,339,642.73</u>	<u>\$ 6,140,120.91</u>	<u>\$ 6,371,037.71</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

Note C – CAPITAL ASSETS

Capital asset activity for the years ended June 30, 2008 and 2007 was as follows:

	Balance July 1, 2007	Transfers in and additions	Transfers out and retirements	Balance June 30, 2008
Capital assets, not being depreciated:				
Land	\$ 85,959.50	\$ 483,572.00		\$ 569,531.50
Construction in progress	34,650.00	366,844.75		401,494.75
Total capital assets, not being depreciated	\$ 120,609.50	\$ 850,416.75		\$ 971,026.25
Capital assets, being depreciated:				
Water distribution system	\$ 20,587,948.86	\$ 577,707.14		\$ 21,165,656.00
Wastewater system	15,380,085.00	2,397,387.50		17,777,472.50
Building	1,226,080.57	8,167.50		1,234,248.07
Office equipment	198,676.74	1,813.52		200,490.26
Equipment	618,274.88	88,973.00	\$ (69,777.00)	637,470.88
Total capital assets, being depreciated	\$ 38,011,066.05	\$ 3,074,048.66	\$ (69,777.00)	\$ 41,015,337.71
Less accumulated depreciation:				
Water distribution system	\$ (6,454,205.36)	\$ (522,942.85)		\$ (6,977,148.21)
Wastewater system	(725,943.40)	(410,073.01)		(1,136,016.41)
Building	(262,252.42)	(31,914.62)		(294,167.04)
Office equipment	(146,263.11)	(12,615.81)		(158,878.92)
Equipment	(447,152.03)	(43,426.18)	\$ 50,839.73	(439,738.48)
Less accumulated depreciation	\$ (8,035,816.32)	\$ (1,020,972.47)	\$ 50,839.73	\$ (9,005,949.06)
Total capital assets being depreciated, net	\$ 29,975,249.73	\$ 2,053,076.19	\$ (18,937.27)	\$ 32,009,388.65
Total capital assets, net	<u>\$ 30,095,859.23</u>	<u>\$ 2,903,492.94</u>	<u>\$ (18,937.27)</u>	<u>\$ 32,980,414.90</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

Note C – CAPITAL ASSETS (continued)

	Balance July 1, 2006	Transfers in and additions	Transfers out and retirements	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 85,959.50			\$ 85,959.50
Construction in progress	29,608.47	\$ 34,650.00	\$ (29,608.47)	34,650.00
Total capital assets, not being depreciated	\$ 115,567.97	\$ 34,650.00	\$ (29,608.47)	\$ 120,609.50
Capital assets, being depreciated:				
Water distribution system	\$ 20,269,262.63	\$ 289,077.76	\$ 29,608.47	\$ 20,587,948.86
Wastewater system	10,950,845.00	4,429,240.00		15,380,085.00
Building	1,226,080.57			1,226,080.57
Office equipment	188,584.66	10,092.08		198,676.74
Equipment	579,534.70	38,740.18		618,274.88
Total capital assets, being depreciated	\$ 33,214,307.56	\$ 4,767,150.02	\$ 29,608.47	\$ 38,011,066.05
Less accumulated depreciation:				
Water distribution system	\$ (5,941,165.28)	\$ (513,040.08)		\$ (6,454,205.36)
Wastewater system	(411,175.94)	(314,767.46)		(725,943.40)
Building	(230,419.76)	(31,832.66)		(262,252.42)
Office equipment	(133,955.08)	(12,308.03)		(146,263.11)
Equipment	(396,215.55)	(50,936.48)		(447,152.03)
Less accumulated depreciation	\$ (7,112,931.61)	\$ (922,884.71)		\$ (8,035,816.32)
Total capital assets being depreciated, net	\$ 26,101,375.95	\$ 3,844,265.31	\$ 29,608.47	\$ 29,975,249.73
Total capital assets, net	\$ 26,216,943.92	\$ 3,878,915.31		\$ 30,095,859.23

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

NOTE D – BONDS AND NOTES PAYABLE

Bonds and notes payable as of June 30, 2008 and 2007 were as follows:

Series, Rates of Interest, and Maturity Dates	2008	2007
Waterworks Revenue Refunding and Improvement Bonds, Series 1993, dated 5/1/93, 4.625% - 6%, less unamortized bond discount of \$23,199.76 and \$27,066.39 and deferred loss on refinancing of \$100,215.72 and \$116,918.34 for June 30, 2008 and 2007, respectively	\$ 2,686,584.52	\$ 3,186,015.27
Waterworks Revenue Improvement Bonds, Series 2000, Capital Appreciation Bonds, (zero coupon bonds) dated 10/5/00, 6.1%-6.4%, principal and accreted interest due serially starting in 2018 and continuing to 2025	3,227,725.00	3,034,320.36
Waterworks Revenue Bonds, Series 2002, numbered R-1 (Rural Development), dated 12/29/04, not greater than 4.50%, due in monthly installments and continuing to 2043	240,444.08	243,329.27
Local Government Public Improvement Bonds, Series IV-E-1, dated 10/24/06, 4.0%-5.0%, less unamortized deferred amounts of \$21,785.53 and \$43,521.08 for June 30, 2008 and 2007, respectively	6,543,214.47	6,641,478.92
Note payable due to Wilson Bank and Trust secured by real property, payable at \$52,497.52 per year at 3.45% fixed annual rate – matures June 2015	320,000.00	
	\$ 13,017,968.07	\$ 13,105,143.82
Less current portion	(723,279.27)	(642,885.19)
	<u>\$ 12,294,688.80</u>	<u>\$ 12,462,258.63</u>

Changes to the Authority's long-term debt are as follows:

	2008	2007
Total long-term debt at beginning of year	\$ 13,292,649.63	\$ 10,628,594.56
Bond proceeds, net of refunded bonds		3,185,000.00
Note payable proceeds	320,000.00	
Accreted interest on Capital Appreciation Bonds	193,404.64	181,813.56
Bond retirements paid	(642,885.19)	(702,758.49)
Total long-term debt at end of year	\$ 13,163,169.08	\$ 13,292,649.63
Refunding revenue bond unamortized discount	(23,199.76)	(27,066.39)
Refunding revenue bond unamortized deferred loss on refundings	(122,001.25)	(160,439.42)
Total long-term debt at end of year, net	\$ 13,017,968.07	\$ 13,105,143.82
Less current portion	(723,279.27)	(642,885.19)
Non-current portion	<u>\$ 12,294,688.80</u>	<u>\$ 12,462,258.63</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

NOTE D – BONDS AND NOTES PAYABLE (continued)

Annual debt service requirements for bonds outstanding to maturity are as follows:

<u>Fiscal Year</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 723,279.27	\$ 480,056.75	\$ 1,203,336.02
2010	765,868.89	439,417.13	1,205,286.02
2011	797,507.94	400,378.08	1,197,886.02
2012	844,187.44	359,698.58	1,203,886.02
2013	885,964.30	316,421.72	1,202,386.02
2014-2018	4,950,437.49	897,900.28	5,848,337.77
2019-2023	5,395,918.52	398,498.98	5,794,417.50
2024-2028	2,432,444.67	133,972.83	2,566,417.50
2029-2033	40,614.09	28,265.91	68,880.00
2034-2038	50,840.55	18,039.45	68,880.00
2039-2043	53,380.92	5,364.27	58,745.19
	<u>\$ 16,940,444.08</u>	<u>\$ 3,478,013.98</u>	<u>\$ 20,418,458.06</u>

The Authority pays its bond liability by semi-annual installments for all issues except for the Series 2002 liability that is paid monthly. The bonds are secured by the revenue of the Authority. In addition, the Authority has complied with the bond resolution requirements adopted by the Board.

Deferred Loss – The refunding of debt in 1993 and 2006 resulted in a deferred loss of \$949,152.03 and \$164,035.19, respectively, to be amortized over the remaining life of the old debt in accordance with GASB 23.

Note E - COMMITMENTS AND CONTINGENCIES

The majority of the water supplied to customers of the Authority is purchased from the City of Lebanon pursuant to a contractual agreement.

On approximately May 6, 1999, the Authority entered into a master provider agreement with a company to build, operate and maintain wastewater systems. This agreement contains a provision that would subject the Authority to contract cancellation fees if the Authority were to take control of the operation and maintenance services through no fault of the contracting company. The Authority has no intention of assuming these operation and maintenance services, however, the cancellation fees would be material to the financial statements if they were to occur.

Note F - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority purchases commercial insurance for claims and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Notes to Financial Statements (continued)

Years Ended June 30, 2008 and 2007

Note G – PENSION PLAN

Plan Description – Employees of the Authority are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in performance of duty. Members joining the system on or after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. The retirement plan for the Authority is included in the total retirement plan for Wilson County, Tennessee. Therefore, separate retirement information for the Authority is not available. Details relative to the funding status and progress, actuarially determined contribution requirements and contributions made, and trend information regarding the pension plan can be found in the Comprehensive Annual Financial Report for Wilson County. Political subdivisions such as Wilson County participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/tcrs/PS/>.

Wilson County has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll. The County is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008 and 2007 was 12.58% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Wilson County is established and may be amended by the TCRS Board of Trustees.

The Authority's payroll for employees covered by the TCRS for the years ended June 30, 2008 and 2007 was \$449,915.58 and \$508,212.67, respectively. Total contributions to the plan by the Authority for the years ended June 30, 2008 and 2007, amounted to \$56,599.40 and \$63,933.12, respectively.

Note H – SUBSEQUENT EVENT

On December 17, 2008 the Authority entered into an agreement to cancel a sewer system installation with a developer that resulted in reducing net assets in the amount of \$103,537.50. The Authority recorded the transaction for the year ended June 30, 2008.

SUPPLEMENTARY INFORMATION

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Five Year Summary of Revenue and Expenses (Unaudited)

	<u>For the Year Ended June 30,</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Operating Revenues -					
Water sales	\$ 2,387,976	\$ 2,446,962	\$ 2,801,337	\$ 2,968,840	\$ 3,100,489
Wastewater income	130,212	536,990	434,519	782,284	765,477
Other charges	179,252	147,094	185,878	211,598	211,265
Total Operating Revenues	<u>\$ 2,697,440</u>	<u>\$ 3,131,046</u>	<u>\$ 3,421,734</u>	<u>\$ 3,962,722</u>	<u>\$ 4,077,231</u>
Operating Expenses -					
Operations, Administration, and General	\$ 1,570,241	\$ 1,985,545	\$ 2,059,364	\$ 2,595,100	\$ 2,652,776
Depreciation	589,300	681,742	828,848	922,885	1,020,972
Total Operating Expenses	<u>\$ 2,159,541</u>	<u>\$ 2,667,287</u>	<u>\$ 2,888,212</u>	<u>\$ 3,517,985</u>	<u>\$ 3,673,748</u>
Operating Income	<u>\$ 537,899</u>	<u>\$ 463,759</u>	<u>\$ 533,522</u>	<u>\$ 444,737</u>	<u>\$ 403,483</u>
Non-Operating Revenues (Expenses) -					
Interest income	\$ 42,368	\$ 42,938	\$ 94,099	\$ 218,557	\$ 258,459
Gain (loss) on sale of assets			5,400		25,748
Capital grant		100,000			
Reimbursement revenue			311,038	992,469	-
Interest and amortization expense	(660,156)	(665,523)	(710,658)	(719,345)	(588,268)
Reimbursement expenses			(311,038)	(1,114,377)	-
Total Non-Operating Expenses	<u>\$ (617,788)</u>	<u>\$ (522,585)</u>	<u>\$ (611,159)</u>	<u>\$ (622,696)</u>	<u>\$ (304,061)</u>
Income (Loss) Before Contributions	<u>\$ (79,889)</u>	<u>\$ (58,826)</u>	<u>\$ (77,637)</u>	<u>\$ (177,959)</u>	<u>\$ 99,422</u>
Capital Contributions -					
Capital reimbursement			\$ 71,514		\$ 30,962
Tap fees	\$ 308,600	\$ 318,250	290,500	\$ 315,000	203,000
Developer contributions of transmission lines	1,507,517	4,551,490	3,537,055	4,474,040	2,503,688
	<u>\$ 1,816,117</u>	<u>\$ 4,869,740</u>	<u>\$ 3,899,069</u>	<u>\$ 4,789,040</u>	<u>\$ 2,737,650</u>
Increase in Net Assets	<u>\$ 1,736,228</u>	<u>\$ 4,810,914</u>	<u>\$ 3,821,432</u>	<u>\$ 4,611,081</u>	<u>\$ 2,837,072</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Debt Service to Maturity (Unaudited)

June 30, 2008

Fiscal Year Ended June 30,	1993 Series		2000 Series		2002 Series		2006 Series "Refunding"	
			Capital Appreciation Bonds		Revenue Bonds		Revenue Bonds	
	Principal	Interest Due	Principal	Interest Due	Principal	Interest Due	Principal	Interest Due
2009	\$ 405,000.00	\$ 168,600.00			\$ 3,017.75	\$ 10,758.25	\$ 170,000.00	\$ 170,300.00
2010	430,000.00	144,300.00			3,156.39	10,619.61	180,000.00	161,800.00
2011	450,000.00	118,500.00			3,301.39	10,474.61	185,000.00	154,600.00
2012	485,000.00	91,500.00			3,453.06	10,322.94	190,000.00	147,200.00
2013	505,000.00	62,400.00			3,611.69	10,164.31	205,000.00	139,600.00
2014	535,000.00	32,100.00			3,777.61	9,998.39	205,000.00	131,400.00
2015					3,951.16	9,824.84	785,000.00	123,200.00
2016					4,132.67	9,643.33	825,000.00	83,950.00
2017			\$ 345,000.00		4,322.52	9,453.48	515,000.00	42,700.00
2018			905,000.00		4,521.09	9,254.91		22,100.00
2019			900,000.00		4,728.80	9,047.20		22,100.00
2020			900,000.00		4,946.05	8,829.95		22,100.00
2021			900,000.00		5,173.26	8,602.74		22,100.00
2022			900,000.00		5,410.92	8,365.08		22,100.00
2023			895,000.00		5,659.49	8,116.51		22,100.00
2024			900,000.00		5,919.50	7,856.50		22,100.00
2025			360,000.00		6,191.41	7,584.59	520,000.00	22,100.00
2026					6,475.87	7,300.13		
2027					6,773.36	7,002.64		
2028					7,084.53	6,691.47		
2029					7,409.98	6,366.02		
2030					7,750.41	6,025.59		
2031					8,106.46	5,669.54		
2032					8,478.87	5,297.13		
2033					8,868.37	4,907.63		
2034					9,275.79	4,500.21		
2035					9,701.92	4,074.08		
2036					10,147.63	3,628.37		
2037					10,613.81	3,162.19		
2038					11,101.40	2,674.60		
2039					11,611.39	2,164.61		
2040					12,144.81	1,631.19		
2041					12,702.77	1,073.23		
2042					13,286.31	489.69		
2043					3,635.64	5.55		
Total	\$ 2,810,000.00	\$ 617,400.00	\$ 7,005,000.00	\$ -	\$ 240,444.08	\$ 231,581.11	\$ 3,780,000.00	\$ 1,331,550.00

2006 Series "Construction"		2008 Land Loan		Total	
Revenue Bonds					
Principal	Interest Due	Principal	Interest Due	Principal	Interest Due
\$ 105,000.00	\$ 118,162.50	\$ 40,261.52	\$ 12,236.00	\$ 723,279.27	\$ 480,056.75
110,000.00	112,912.50	42,712.50	9,785.02	765,868.89	439,417.13
115,000.00	108,512.50	44,206.55	8,290.97	797,507.94	400,378.08
120,000.00	103,912.50	45,734.38	6,763.14	844,187.44	359,698.58
125,000.00	99,112.50	47,352.61	5,144.91	885,964.30	316,421.72
130,000.00	94,112.50	49,008.96	3,488.56	922,786.57	271,099.45
135,000.00	88,912.50	50,723.48	1,774.27	974,674.64	223,711.61
145,000.00	82,162.50			974,132.67	175,755.83
150,000.00	74,912.50			1,014,322.52	127,065.98
155,000.00	68,912.50			1,064,521.09	100,267.41
160,000.00	62,712.50			1,064,728.80	93,859.70
170,000.00	56,312.50			1,074,946.05	87,242.45
175,000.00	49,512.50			1,080,173.26	80,215.24
180,000.00	42,075.00			1,085,410.92	72,540.08
190,000.00	34,425.00			1,090,659.49	64,641.51
200,000.00	26,350.00			1,105,919.50	56,306.50
205,000.00	17,850.00			1,091,191.41	47,534.59
215,000.00	9,137.50			221,475.87	16,437.63
				6,773.36	7,002.64
				7,084.53	6,691.47
				7,409.98	6,366.02
				7,750.41	6,025.59
				8,106.46	5,669.54
				8,478.87	5,297.13
				8,868.37	4,907.63
				9,275.79	4,500.21
				9,701.92	4,074.08
				10,147.63	3,628.37
				10,613.81	3,162.19
				11,101.40	2,674.60
				11,611.39	2,164.61
				12,144.81	1,631.19
				12,702.77	1,073.23
				13,286.31	489.69
				3,635.64	5.55
<u>\$ 2,785,000.00</u>	<u>\$ 1,250,000.00</u>	<u>\$ 320,000.00</u>	<u>\$ 47,482.87</u>	<u>\$ 16,940,444.08</u>	<u>\$ 3,478,013.98</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Insurance Coverage (Unaudited)

June 30, 2008

<u>Name of Company</u>	<u>Period of Coverage</u>	<u>Coverage</u>	<u>Liability</u>
St. Paul Travelers	1/31/08-1/31/09	General Liability	\$ 1,000,000/3,000,000
St. Paul Travelers	1/31/08-1/31/09	Management Liability	1,000,000/3,000,000
St. Paul Travelers	1/31/08-1/31/09	Inland Marine	48,920
St. Paul Travelers	1/31/08-1/31/09	Automobile Liability and Damage	1,000,000/1,000,000
St. Paul Travelers	1/31/08-1/31/09	Property	· 3,717,000
St. Paul Travelers	1/31/08-1/31/09	Employment Practices Liability	1,000,000/3,000,000
St. Paul Travelers	1/31/08-1/31/09	Miscellaneous	100,000 - 3,000,000
Local Government Insurance Pool	7/1/07-7/1/08	Worker's Compensation	1,000,000
St. Paul Travelers	2/28/06-2/28/09	Highway Replacement Bond	2,500
St. Paul Travelers	4/8/08-4/8/09	Fidelity Bond/Chairman	50,000
St. Paul Travelers	1/31/08-1/31/09	Fidelity Bond/Executive Director	50,000
St. Paul Travelers	2/4/08-2/4/09	Fidelity Bond/Treasurer	50,000
St. Paul Travelers	4/1/08-4/1/09	Fidelity Bond/Treasurer	50,000
Westfield Companies	10/13/07-10/13/08	Fidelity Bond/Billing Clerk	50,000
St. Paul Travelers	9/9/07-9/9/08	Fidelity Bond/Billing Clerk	50,000
St. Paul Travelers	3/23/08-3/23/09	Fidelity Bond/Accounts Receivable Clerk	50,000
St. Paul Travelers	5/11/08-5/11/09	Fidelity Bond/Accounts Receivable Clerk	50,000

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of General Information (Unaudited)

June 30, 2008

Water Rate Schedule

	<u>Rate</u>
First 2,000 gallons	\$ 22.57 per month minimum
Next 3,000 gallons	7.98 per 1,000 gallons
Next 5,000 gallons	6.94 per 1,000 gallons
Over 10,000 gallons	6.25 per 1,000 gallons

Year Ended June 30,

Number of Customers

2008	7,156
2007	6,642
2006	6,409
2005	5,907
2004	5,504
2003	5,241
2002	4,971
2001	4,743
2000	4,583
1999	4,411

Customers

**Estimated
Gallons/Year**

Spring Hill Townhomes	4,400,000
Roy Major Dairy Farm	2,000,000
Co Part Salvage	1,200,000
Wilson County Schools	1,120,800
Earl Watson	1,109,800
Vera Bella Properties (Motel)	482,600
Seth Major	423,000
CDM of TN	359,000
J.C. Bradshaw	300,000
Charles Lanning	116,170

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Unaccounted for Water (Unaudited)

June 30, 2008

(All amounts in gallons)

A Water Treated and Purchased:			
B Water pumped	-		
C Water Purchased	387,782,256		
D Total Water Treated and Purchased (Sum Lines B and C)			387,782,256
E Accounted for Water:			
F Water Sold	-		
G Metered for Consumption	331,595,994		
H Fire Department(s) Usage	3,600,000		
I Flushing	1,618,375		
J Tank Cleaning/Filling	-		
K Street Cleaning	-		
L Bulk Sales	-		
M Water Bill Adjustments	-		
N Other (explain)	1,319,533		
O Total Accounted for Water (Sum Lines F thru N)			338,133,902
P Unaccounted for Water (Line D minus Line O)			49,648,354
Q Percent Unaccounted for Water (Line P divided by Line D times 100)			12.80%
R Cost per 1,000 gallons of water		\$	1.91
S Cost of Unaccounted for Water (Line P divided by 1000, times Line R)		\$	94,828.36

Explain Other:

Amount of water sold but not yet billed less prior year water billed in July 2007 and purchased prior to July 2007 (10,567,166 less 9,247,633 gallons)
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WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Changes in Bond Funds (Unaudited)

Year Ended June 30, 2008

	Bond and Interest Sinking Fund	Debt Service Reserve Fund
Balance, June 30, 2007	\$ 685,243.09	\$ 731,800.00
Deposits and transfers	3,540,204.54	1,500.00
Disbursements and transfers	(3,086,313.24)	(150,800.00)
Balance, June 30, 2008	\$ <u>1,139,134.39</u>	\$ <u>582,500.00</u>

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Debt Service Coverage (Unaudited)

Year Ended June 30, 2008

Net Earnings from Operations	\$ 403,482.53
Add:	
Depreciation	1,020,972.47
Interest income	258,459.50
Cash contributions - tap and fire hydrant revenue and utility plant	<u>203,000.00</u>
Amount available for debt service	<u>\$ 1,885,914.50</u>
Annual debt service	<u>\$ 1,203,336.02</u>
Coverage	1.57

INTERNAL CONTROL AND COMPLIANCE REPORT



JOBE, HASTINGS & ASSOCIATES

Certified Public Accountants

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Donna K. Hastings, CPA, CSEP

James R. Jobe, CPA

Joel H. Jobe (1944 - 2006)

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Commissioners
Water and Wastewater Authority of Wilson County, Tennessee
Lebanon, Tennessee

We have audited the financial statements of Water and Wastewater Authority of Wilson County, Tennessee, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated December 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Water and Wastewater Authority of Wilson County, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Water and Wastewater Authority of Wilson County, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Water and Wastewater Authority of Wilson County's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Water and Wastewater Authority of Wilson County, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Water and Wastewater Authority of Wilson County, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Water and Wastewater Authority of Wilson County, Tennessee's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the significant deficiency R-2 to be a material weakness.

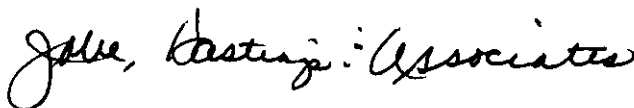
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water and Wastewater Authority of Wilson County, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and are included in the accompanying schedule of findings and responses.

We noted a certain matter that we reported to management of Water and Wastewater Authority of Wilson County, Tennessee, in a separate letter dated December 22, 2008.

Water and Wastewater Authority of Wilson County, Tennessee's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit Water and Wastewater Authority of Wilson County, Tennessee's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Commissioners, management and state and federal audit agencies, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Julie Hastings".

Certified Public Accountants

Murfreesboro, Tennessee
December 22, 2008

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Findings and Responses

June 30, 2008

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Water and Wastewater Authority of Wilson County, Tennessee.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported in the Independent Auditor's Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With *Government Auditing Standards*. The significant deficiency indicated as item R-2 is considered to be a material weakness.
3. Two instances of noncompliance material to the financial statements of the Authority were disclosed during the audit.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

SIGNIFICANT DEFICIENCIES

R-1. Segregation of Duties

Condition: Due to the limited number of financial personnel employed by the Authority, the same individuals regularly perform several functions which, ideally, should be performed by different individuals. Such functions include preparation of bank reconciliation, issuing checks, signing checks, handling cash receipts, processing customer billings and accounts receivable and recording of transactions.

Criteria: Proper separation of duties requires that no one employee be responsible for an entire transaction cycle from beginning to end.

Effect: Inadequate separation of duties allows the possibility of the occurrence of unauthorized cash transactions, which may not be properly detected by Management.

Recommendation: To the extent possible, Management should separate the duties of bank reconciliations, issuing checks, signing checks, handling cash receipts, processing customer billings and accounts receivable and recording transactions.

Response: Management believes the cost of maintaining this control would exceed its benefits.

R-2. Deficiency in Internal Control Design and Operation

Condition: As a result of the audit procedures performed, journal entries were proposed to management in order to adjust the financial statements in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* published by the Governmental Accounting Standards Board.

Criteria: The Authority should possess the required level of understanding necessary to independently prepare its financial statements and related footnotes in sufficient detail to assume responsibility for them and to prevent and detect misstatements in financial reporting.

Effect: Due to a lack of understanding necessary to independently prepare the financial statements and related footnotes in sufficient detail there is the possibility of the occurrence of inaccurate financial reporting.

Recommendation: We recommend that the Authority provide training for appropriate personnel to gain the necessary level of understanding.

**WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE**

Schedule of Findings and Responses (continued)

June 30, 2008

R-2. Deficiency in Internal Control Design and Operation (continued)

Response: Management will continue to provide training to personnel to facilitate the financial statement reporting process in accordance with generally accepted accounting principles.

NONCOMPLIANCE AND OTHER MATTERS

R-3. Contracts – Wastewater system and operations

Condition: On May 6, 1999, the Board of Commissioners approved a master service provider contract with a vendor to provide collection, storage, treatment, recycling and reclamation of sewage and wastewater services. However, this contract was not competitively bid. The contract included a provision for the perpetual operations and maintenance of the wastewater system by the vendor until both parties determine to dissolve the agreement.

Criteria: Under *Tennessee Code Annotated (TCA)* 68-221-607(15), the Board of Commissioners adopt purchasing procedures for utility districts as defined in *TCA* 7-82-801. The purchase policy adopted by the Board under *TCA* Section 7-82-801 requires competitive bids for purchases/expenditures exceeding \$10,000.

Effect: It appears that the Authority did not adhere to its competitive bid procedures as stated in its purchasing policy.

Recommendation: The Authority's purchasing policy should be followed and the contract competitively bid.

Response: It is our attorney's opinion that the Authority's present method of providing wastewater services is lawful. It has been indicated by the Authority that the method is a licensing approach rather than a purchasing method.

R-4. Change Orders – Water system construction

Condition: On August 28, 2007, the Board of Commissioners approved construction contract WC 07-02 for \$588,905, which was competitively bid. However, the Board then approved several change orders that materially altered the original project without soliciting competitive bids. On April 17, 2008, the Board of Commissioners approved a change order to the original contract that included another project and with a price increase to the previous bid amounts. This change order included additional costs up to \$400,000. On June 26, 2008 the Board of Commissioners approved another change order to contract WC 07-2 for \$162,000. Since these change orders significantly altered the scope and amount of the original project, competitive bids are required to be solicited.

Criteria: The purchase policy adopted by the Board under *TCA* Section 7-82-801 requires competitive bids for purchases/expenditures exceeding \$10,000. The expectation is that once a bid is accepted, there should be no material change orders required.

Effect: The Authority has violated its bid policy.

Recommendation: All purchases/expenditures exceeding \$10,000 should be made on the basis of competitive bids, as required by state statute and the Board's purchasing policy.

Response: It is our attorney's opinion that the change orders did not violate the purchasing policy of the Authority. At the time the Board acted, the country was experiencing the greatest fuel price increases in history. The Board considered this fact in deciding to approve the change orders. *TCA* 7-82-804 expressly states that the purchasing policy requirements should "in no way interfere with existing sound and prudent business practices."

WATER AND WASTEWATER AUTHORITY
OF WILSON COUNTY, TENNESSEE

Schedule of Findings and Responses (continued)

June 30, 2008

R-4. Change Orders – Water system construction (continued)

Auditor's rebuttal to response: Under the Authority's purchasing policy, competitive bids are required for purchases/expenditures exceeding \$10,000, unless exempted under the provisions of *TCA 7-82-801*; therefore, the Authority did not adhere to its purchasing policy.